A GUIDE TO The Municipal Auditor in Alberta

REVISED JANUARY, 1986

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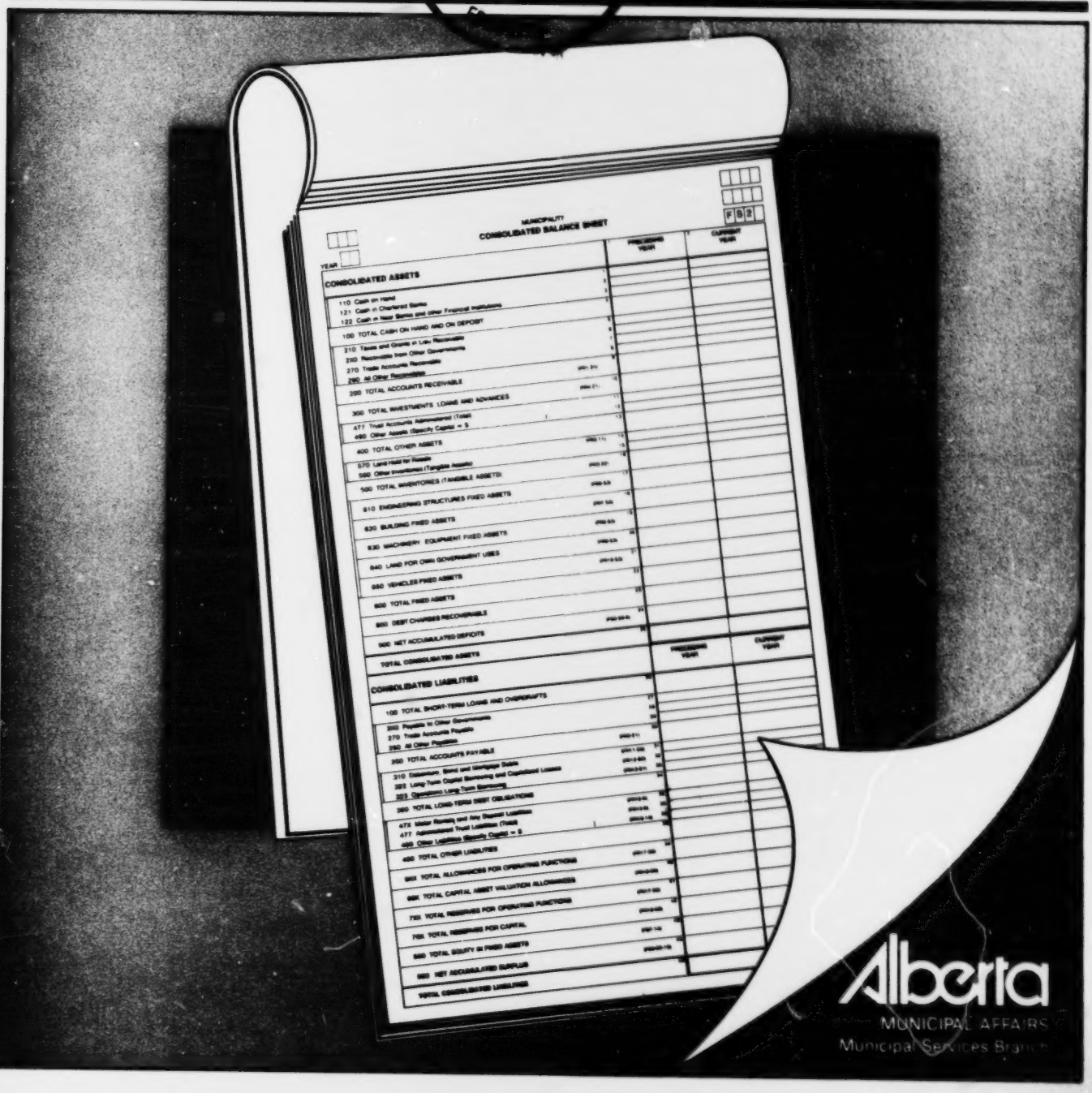

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A GUIDE TO
THE MUNICIPAL AUDITOR
IN ALBERTA

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THE ALBERTA MUNICIPALITY

THE MUNICIPALITY AS A CORPORATE ENTITY

Legal Definition

The Interpretation Act, Chapter I-7 of the Revised Statutes of Alberta, 1980 defines a municipality as meaning "a city, town, new town, village, summer village, municipal district, county, improvement district or special area". Section 12 of the Municipal Government Act states the municipal corporation is made up of "the mayor, councillors and other electors". Rogers in "The Law of Canadian Municipal Corporations" defines a municipal corporation as "a body corporate constituted by the incorporation of the inhabitants residing within a defined area upon which the Legislature has, either directly or indirectly through some intermediate agency, conferred corporate status, rights and liabilities, including the right to administer through the agency of an elected council or other governing body, such matters of local concern as are expressly specified, or as are necessarily implied from the nature and extent of the authority conferred". Therefore, a municipality is a corporation. In many ways it is similar to a business corporation incorporated under The Business Corporations Act – it has legal personality and status. It can sue and be sued, make contracts and borrow money. Its existence, rights and duties are separate from those of its constituents.

To a point, the structure of a municipality is also like that of a business corporation. Its members elect a council to manage the corporation and to take all executive action on its behalf – just as the shareholders of a business corporation elect a board of directors to manage its affairs. The municipal council appoints officials to carry out its day-to-day operations – just as a board of directors appoints company officers.

We need not dwell on the parallels between business and municipal corporations - they will be obvious to you. Far more interesting and important are the differences between the two types of corporation. For example, consider the relationship of a municipal corporation with its members - which is not fully comparable to that of a business corporation with its shareholders. Or, examine the role of appointed officials; in a municipal corporation, a person can never be both an elected member of the council and an appointed official at one and the same time, and the responsibility and authority of an elected municipal council are comparatively restricted. Moreover, a business corporation sets out with the avowed goal of earning a profit; not so the municipal corporation. A municipality is incorporated in order to provide a range of services for its constituents at the lowest possible cost.

Service, not profit, is the purpose of the municipal corporation. With, perhaps, the exception of the largest corporations, no business corporation has such a wide variety of operations as that found in an Alberta municipal corporation. Police and fire protection, bridge and road building, sewage and garbage disposal, parks and recreations facilities, community planning and zoning control, libraries and preventative health care, support for homes for the aged and support of charitable organizations - all are numbered among the many responsibilities of a modern municipal corporation.

When you compare the operations of a municipality or those of the provincial and federal governments you will find one major difference. In a municipality there is no cabinet made up of elected members of a political party. The elected representatives of a municipal council vary greatly in personality, ambition and interests - and since they are seldom elected as a team or party, it is sometimes difficult for them to act as a team.

Relationship With Constituents

To understand your client's operation, you need to comprehend the relationship which exists between a municipality and its constituents - inhabitants, ratepayers and electors.

(a) Inhabitants are all the people who live within the geographic boundaries of a municipality. Remember a municipality is a locality, the inhabitants of which are incorporated.

(b) Ratepayers are people who pay either business or property taxes to the municipal corporation. Therefore, all property owners and business tenants are ratepayers - whether they live there or not.

(c) Electors are those inhabitants and ratepayers who are entitled to vote at municipal elections. As per section 47 of The Local Authorities Election Act "A person is eligible to vote in an election held pursuant to this act if he:

  (a) is at least 18 years old,

  (b) is a Canadian citizen, and

  (c) has resided in Alberta for the 6 consecutive months immediately preceding election day and is resident in the area on election day.

It is important to realize that the council of a municipality is elected to legislate the municipality on behalf of the members of the corporation - the inhabitants. Ratepayers supply the tax money needed to operate the municipality, but the elected representatives are accountable to the inhabitants of a municipality. Your role in this accountability pattern is explained later in this publication. Part of the accountability concept involves impartiality. A municipality must treat all its constituents impartially; and consideration for this principle has led to much of the legislation affecting municipalities - such as that dealing with conflict of interest and that providing for the appeal of assessment.

Grasp the importance of impartiality in local government, and you will appreciate why many apparently cumbersome administrative procedures are required by law. The Legislature wishes to ensure that the rights of every individual constituent of a municipality are being protected. For example, all real property must be assessed or valued and the council must levy taxes on all assessed property each year - failure to do so would be illegal and would show partiality towards certain constituents. One cause of friction between a municipality and its constituents is the appearance of real or imagined favoritism. Deliberate partiality on the part of elected representatives or appointed officials should not be condoned, but sometimes a municipal council or a local board will discriminate unwittingly by changing an established policy or procedure. Incidentally, when you advise a municipality on methods of improving its operations, bear in mind this question of impartiality.

Type of Municipality

In Alberta, there are seven distinct types of municipality:

- cities
- towns
- new towns
- villages
- summer villages
- counties
- municipal districts

Types of municipalities in Alberta are generally distinguished by their size of population and their rural or urban nature. Cities, towns and villages, to qualify as such, must reach a minimum population size and then apply for the desired status. Municipal districts and counties are large rural municipalities with the basic difference between the two being that counties are also the local

school authority and are governed by the county council and board of education. In addition to the foregoing authorities, Alberta also has Improvement Districts and Special Areas which are special status, unincorporated rural authorities under direct control of the Minister of Municipal Affairs. Communities of citizens not incorporated within rural municipalities may be designated as hamlets. A hamlet may become a village once it attains the stipulated number of dwellings and other legal requirements as spelled out in The Municipal Government Act (Section 13) and can continue up to city status as growth dictates. It should be noted that it is not an automatic move up as the required population levels are reached. The change in status must be applied for by council through petition to the Minister. The Hamlet of Sherwood Park illustrates this point in that it has long since passed the city population level of 10,000 persons but has chosen to remain a hamlet.

Local Ethos

From what we have said so far, you will have realized that every generalization applied to Alberta local government is capable of exception. Each municipal corporation is, to some extent, a unique entity. You may find this fact an irritation if you are trying to learn something about municipalities in general, but there is good reason for it. If local government is to operate efficiently, it must adapt itself to meet the demands of local conditions. Each municipality therefore practises self-government on a wide range of specified matters; each attempts to provide good government to its own particular area.

There are, in fact, two opposing forces at work upon the local nature of each municipality - influences tending to produce uniformity among all municipalities, and tendencies which encourage diversity. Three major influences which induce municipal uniformity are: legislation, court decisions and the promotion of basic service standards by the Province.

All municipalities owe their existence to an Act of the Legislature. Most were created under the provisions of The Municipal Government Act or its predecessor enactments. Counties, improvement districts and special areas are created by The County Act, The Improvement District Act and The Special Areas Act respectively. Some municipalities owe their existence to special acts created at the time of incorporation. The City of Lloydminster and the Municipality of Crowsnest Pass are examples. The Town of Devon, the only urban county in the province, was created under the auspices of the County Act. But with certain exceptions, the provisions of The Municipal Government Act and other pieces of general legislation apply to all municipalities alike. For this reason, court decisions which interpret municipal law relate to all municipalities.

The Province encourages municipalities to provide certain basic services by:

- programs which provide grants based on actual expenditure (such as grants for highways and family and community social service programs)

- capital grants for needed facilities. Examples include grants under the Alberta Municipal Water Supply and Sewage Treatment Grant Program and those under the Alberta Hamlets Street Assistance Program

- operating grants such as the municipal assistance grants and library operating grants

- penalties for failing to provide certain services or adhere to certain standards. (For example, under The Clean Water Act, Alberta Environment can bring a municipality before the courts if it refuses to provide sewage treatment.)

In spite of these pressures, there is a strong tendency toward municipal individuality. The inhabitants of each municipality demand services which make it a comfortable, convenient and interesting place in which to live and work.

Naturally, local pressures differ slightly in each area, causing one municipality to have a different order of priorities from another. The Municipal Government Act and other legislation recognizes this fact, and most of the statutory requirements affecting municipalities are permissive, not mandatory. There is, moreover, a great diversity of municipal structures; no two municipalities are identical.

Each municipal corporation has developed its own unique organization of committees, departments, local boards and appointed officials. Each has allocated its own internal responsibilities and authority. In fact, different municipalities give different names to the same appointed official whose title and duties appear in The Municipal Government Act. Therefore, whenever you find a generalization in this guide, treat it with caution! Study your client's own organization and you will be able to apply to it what you learn here.

Relationship With The Province

In Canada, all political authority is divided between the federal and provincial governments. Municipalities are a concern of the provinces and not of the federal government as a result of the powers conferred by the Constitution Acts, 1867 to 1982. Municipalities are not sovereign governments. They derive whatever powers they have from Acts of the Provincial Legislature.

From time to time, municipal corporations find this limitation of power frustrating. It may be necessary to carry out some needed local service which is not explicitly permitted in the existing legislation. Apart from acting outside its powers, in which case it risks challenge in the courts, a municipal council has to seek special provincial legislation giving it the authority to act.

There are three facets of the relationship between the Province and its municipalities - the responsibility for the provision of services

for the citizens of Alberta, payment by the Province for some of the services supplied by local government and the provincial direction and determination of municipal services.

Provincial and Municipal Services

The Legislature decides which services will be the responsibility of the provincial government and which the responsibility of local government. There are changes from local to provincial level and vice versa almost every year.

Financing Arrangements for Local Services

Provincial revenues are widely used to encourage the provision of and to defray the cost of certain municipal services. In most cases, the actual service is rendered and administered by local governments but the cost is paid in part by the provincial government - in some cases the support is 100% of the cost. Why does the Legislature require the Province to aid municipalities in this way?

Three general answers can be given.

1. The provincial government could, of course, provide such services itself. But they are supplied more effectively if administration is kept at the local level and priorities are decided by local elected representatives.

2. The full range of services demanded of local government is too costly to be provided from municipal taxation.

3. The tax base of a municipality is inadequate to support the standard of service expected by most residents of Alberta. There is a strong desire that the general quality of life should improve throughout the province, even in areas where the ability of the local inhabitants to pay for it is severely limited.

Provincial Direction and Determination

Provincial government departments and agencies have close and direct ties with departments and boards of local government. The directive powers of the provincial government are extensive; some are used frequently, but others are seldom, if ever, applied. To take several contemporary and specific examples - the Alberta Local Authorities Board and Alberta Environment are both actively concerned in municipal activities. The Alberta Local Authorities Board (LAB) is a partly administrative, partly judicial body whose approval must be obtained by a municipality before it does certain things such as incurring long-term debt. Alberta Environment is responsible for improving the quality of Alberta's water supply. It therefore requires municipalities to meet certain standards in supplying fresh water and in treating sewage.

On the other hand, Alberta Municipal Affairs and the Local Authorities Board have wide directive powers which they seldom use. Occasionally, when, for example, a municipality's solvency appears threatened, the Municipal Inspector or the Local Authorities Board may recommend to the Lieutenant Governor in Council to dismiss the council and appoint an administrator. The Department of Municipal Affairs Act, Sections 13 and 14 provides the Minister with discretionary powers to appoint an official administrator or a controller. This action is taken only when a municipal administration or council appears to be grossly inept or corrupt. Once matters have been placed on a sound footing, the administration is turned back to local control.

No doubt you will be impressed by the extent and variety of the relationships between your municipal client and the province. As you come to understand municipal finance, you will see how provincial grants are involved in paying for locally administered services, and you will become fully aware of the effect your professional advice can have on your client's relationship with a provincial department or agency.

THE PERVASIVE INFLUENCE OF LAW

The Important Principle of Ultra Vires

The legal principle ultra vires is applied to municipal activities without exception. Put into plain English, ultra vires means that a corporation may do only those things that the statutes say it can do; it may not do anything for which it has no express authority.

The principle of ultra vires has almost passed out of use in business corporations. In the case of municipal corporations however, the courts have insisted that ultra vires applies rigidly. There is good reason for this insistence. If municipalities were allowed to indulge in whatever they liked, they might do just that - and infringe on individual human rights. As matters stand, municipalities may engage in certain specified activities only; they have no legal authority to engage in other activities.

By way of illustration, a municipality may not agree to maintain an industry's property assessment at a fixed level even if all its constituents want it - there is no legislation authorizing it to do so. Nor may it make a grant or contribution to a worthy cause (for example, a local service club) unless the legislation specifies the cause. A municipality may license, regulate and tax - but only in the form and manner prescribed by an Act of the Legislature.

The responsibility for making sure a municipality observes the principle of ultra vires rests with the inhabitants or ratepayers. They, or any other party, may take the matter to the courts and have an offending by-law declared invalid.

In order to determine whether or not the financial statements of a municipality present fairly its financial position, you will need a basic working knowledge of

the authority possessed by your client. Ultra vires transactions may give rise to substantial contingent liabilities. If they are not adequately disclosed in the financial statements, your opinion may not be unqualified. You are always entitled to ask - and to receive an unequivocal reply to the question "What authority do you have for this transaction?"

Municipal Powers - Complexity of Legislation

The legislation authorizing municipalities to act increases with every session of the Alberta Legislature. There are now well over fifty Statutes which affect municipalities to some degree. In addition to the Statutes there are also countless regulations and instructions issued by provincial government departments and agencies under the provisions of the Statutes. As a further complication, the Legislature has passed special private acts which empower a municipality to do things which other municipalities cannot do under the general legislation. These acts are usually found in municipalities which have been faced with problems that are uncommon to most Alberta local governments.

The whole arrangement is complex, and to the uninitiated, extremely confusing. In order to have a thorough working knowledge of municipal law, it is necessary to make yourself familiar with the pertinent legislation and regulations. Appendix B in this guide lists some of the more common Acts of the Legislature which concern municipalities. A good general rule to follow is to look in the obvious place first - the Municipal Government Act, which governs the general conduct of municipalities. Other Acts deal with specific matters and usually their title is a fair indication of their content. If any legislation appears obscure, your client's solicitor should be able to interpret its meaning for you. Employees of the Department of Municipal Affairs can provide information about municipal legislation and can give you information about common practices, but they do not give legal opinions.

Because the law is so important to a municipal audit, your relationship with solicitors will be more critical than in a normal business audit. Municipal law is very complex and on occasion, you may have reason to think that the legal opinion obtained by your client should be substantiated. You may want to obtain a second opinion before deciding on your reaction to a questionable situation. Fortunately, means are available which give you easy access to Statutes and Regulations. You should consider having a minimum library of municipal law in your office. The basic work is the Revised Statutes of Alberta (R.S.A. 1980). But it must not be thought that having the most recent R.S.A. at hand means that you have the up-to-date law at your fingertips; legislation is passed so frequently that even when a fresh R.S.A. is issued, it is outdated. The Statutes passed at each session of the Legislature are published in the annual Statutes of Alberta. Copies of recent amendments may be obtained from the Queen's Printer, Edmonton. In addition, annually at the end of the current session of the Legislature, Alberta Municipal Affairs issues a newsletter summarizing legislation changes affecting municipalities. You may become a subscriber to the looseleaf version of the R.S.A. in which case you will be kept up-to-date regarding changes in legislation as they occur.

In addition to the basic legal references in a municipal law library, you would be well advised to keep on hand a copy of Rogers' "Law of Canadian Municipal Corporations" and to subscribe to the Alberta Gazette and Regulations.

The Exercise of the Council's Power

In order to be certain that they are binding and valid, policy decisions of the council should be enacted as by-laws and recorded in the minutes of the council. In certain cases the provincial legislation authorizes the council to act by passing a resolution, but whenever the validity of resolutions has been challenged in the courts, the judges have said that only by-laws are recognized as firm and binding. This is the reason why you should expect to find a

by-law to support major decisions of the council. For instance there should be a by-law for every decision to borrow money from the bank, to levy the taxes, to share costs on a joint project, to adopt a budget, and to hire a senior official.

Municipal Accounting

Before we leave the subject of the law's pervasive influence, a word about municipal accounting. In municipal financial operations, as in the operation of most other non-profit organizations, money raised or supplied for a particular purpose cannot be used for any other purpose. Legal restrictions and contractual agreements prevent it from being diverted to any other use. Municipal accounting is a technique which is used to show that money has been used for the purpose for which it was obtained.

In Alberta, the prescribed annual financial statements require all municipalities to report financial activities on the basis of one fund which provides for the distinction between operational and capital activities. Within this fund is a breakdown of revenues and expenditures on the basis of function (e.g. recreation, water supply, administration etc.). This does not require the maintenance of separate bank accounts for each function but it does require the identification of all transactions by the respective function to which that transaction applies. This allows for the determination of a "net position" for each function while maintaining the ability to easily view the global position of the municipality.

The prescribed financial statements are coded on the basis of the Municipal Account Coding Structure (MACS) introduced in 1981 by Alberta Municipal Affairs. A full description of this system is available from the department. All Alberta municipalities are encouraged to adopt this system for coding their accounting records. The MACS system replaces the FIS system previously in use

in the province. It is important to note that while the coding structure has changed under MACS the definition of terminology as used in the FIS system remains the same.

Procedures and Policies

The term "procedural by-law" describes the by-law or by-laws which regulate the manner in which council and its committees are to conduct their business. For example, it includes a description of the make-up and powers of the standing committees, the timing of council meetings, etc. The practice of having a well documented procedural by-law is far from universal. The Municipal Services Branch of Alberta Municipal Affairs strongly recommends that most municipalities have such a by-law in place. They will provide a sample procedural by-law upon request.

In addition, the municipal council must adopt by-laws to appoint municipal officers such as the treasurer and municipal secretary. These by-laws establish the duties, powers and responsibilities of these officers.

In many municipalities the recording of the council's policy decisions is fragmented; seldom are the many practices and resolutions of council assembled in one place. All municipalities should have a policy and procedures manual containing this information. Included in this manual should be such things as a description of the organization, power, and responsibility of the municipality's administrative arm. As a municipal auditor, you cannot ignore policy decisions of the council; even if your client's system of internal control is adequate, you should also make sure that it agrees with the policies of council. As explained below, it is only the council which has the authority to decide policy. If you find this authority is being usurped by individual officers or representatives you should report the fact to the council. It can then decide whether to change the system or to change its policy.

THE MUNICIPAL STRUCTURE AND ACCOUNTABILITY PATTERN

The Council

Properly speaking, nothing may take place in municipal operations unless the municipal council first gives its blessing. Policy is decided only by the council; appointed officials and elected representatives may advise and recommend certain courses of action, but the action is taken by the council. The council's authority is modified only by the degree of delegated authority that it gives to committees, boards or its officers.

The council of a municipality has the central position in the accountability pattern. The council develops the policies of the municipal corporation on behalf of the inhabitants and enacts legislation to carry out the policies. Within a municipality, the council establishes the accountability pattern in procedural by-laws and policies. The responsibilities and terms of reference for each committee are framed by the council. Most local boards and committees are established by the council and are accountable to the council for their actions.

In the provincial and federal governments, the responsibility for legislation rests with the Legislature or Parliament, and the responsibility for policy rests with the Cabinet. In local government, the council is both the legislative and the policy development body. The actual administration of municipal operations is the responsibility of the chief administrative officer. In many municipalities, council attempts to involve themselves in the day-to-day administrative activities. This is not the role they've been elected to fulfill and they should be discouraged from continuing such activities.

It is the council which has authority to direct the administration of activities on behalf of the municipality; individual members of the council have no legal

authority to act on behalf of the council or the municipality unless specific authority is given. The head of the council - the mayor, chairperson, or reeve - may enjoy considerable influence and prestige. He chairs meetings of the council and causes the laws governing the municipality to be executed. He supervises the conduct of all officials in the municipality and causes all negligence, carelessness, or violation of duty to be punished. He has the right to sit on all its committees. It must be remembered that his vote carries no more weight than any other member's vote either on council or on committee. Authority invariably rests with the council as a whole.

There has been a great deal of discussion over the question of a council member's conflict of interest. This matter is difficult to define and nearly impossible to prevent by legislation. The law requires that any council member who has a pecuniary interest in a matter under discussion shall declare that interest and shall refrain from discussion or voting on that matter. If in doubt, legal advice should be sought.

Committees

Most of the detailed policy development work in which council members become involved is handled by committees. Because members of a committee become well versed in the activities for which they are responsible, they can develop positive recommendations for policy decisions more quickly. Generally, discussion is kept informal and committee members have the opportunity to sound out local opinion before making a recommendation to the council. Incidentally, some municipal councils use the procedural device known as a "committee of the whole" to deal with complicated matters under discussion by the council. This device allows the entire council to dispense with formal rules of procedure in discussing municipal business. If necessary, council may go into committee of the whole in camera to deal with matters of a sensitive nature.

When the matter has been resolved, the council resumes its sitting and, if necessary, takes formal action. This provision is contained in Section 44(3) of The Municipal Government Act.

The number and organization of committees to be found in a municipality depends upon local needs. Standing committees of council are usually provided for such functions as public works, finance, fire protection and family and community services. Special committees are formed to handle one specific matter and sometimes include as members selected experts who are not members of the council. Standing committees generally continue during the lifetime of the council. A special or ad hoc committee, having a limited purpose, usually disbands when its task has been accomplished.

Provincial legislation recognizes committees of council only to the extent of the powers granted to the committee by council. For standing committees you will find their specific responsibilities and terms of reference in the municipality's procedural by-law together with the names of the currently appointed chairmen and members. Ad hoc committees are often established by council (sometimes by resolution) with a vague definition of powers and responsibilities. This can lead to confusion and conflict within the municipality. The auditor should look carefully at the ad hoc committees to ensure they are not acting outside the authority given to them by council. In most situations, a committee resolution must be passed by council to come into effect while in others the committee has been given power to act. In spite of the fact that they have limited legal status, committees of the council can have a strong influence in a municipality.

Appointed Officials

The day-to-day details of municipal administration and advice on policy are the concern of appointed officials. There is great variety in the duties, terms of reference and titles of the officials in different municipalities because they are determined by local practice.

The Municipal Government Act requires a municipality to have a municipal secretary, a municipal treasurer and an auditor. These officials are appointed by the council and, with the exception of the auditor, hold office at the pleasure of the council. The Municipal Government Act requires the secretary to keep the books, records and accounts of the council. The municipal treasurer is required to control the flow of the corporation's money; he is also responsible for the preparation and publication of financial statements of the municipality.

For most of their duties, the appointed officials find their terms of reference set by the council in the by-law appointing them, or in the procedural by-law. One appointed official may wear several hats including those of secretary, treasurer and manager. In smaller municipalities, officials serve part time only. In larger municipalities, titles may be given to officials which indicate that their function is broader than that required by Statute, such as "Commissioner of Finance", "Chief Administrator" or "Manager". Except where provincial legislation or a council by-law indicates otherwise, all appointed officials are accountable directly to the council for carrying out the duties assigned to them.

Although it is seldom included in the by-law, appointed officials often consider it to be their responsibility to recommend policy decisions to the council - even without being requested to do so. They also advise the council on the full effect any of its decisions will have. Municipalities which do not have officials who are qualified in such fields as law, finance, engineering or planning often obtain advice by using the services of professional consultants.

The Current Situation

Each municipality was established to provide service to a particular group of people living within a geographically defined area. The needs of that group of

people were - are - and will be - different from the needs of any other group. Each municipality adapts itself to meet the demands of the changing situation as it attempts to improve the quality of life of its inhabitants. Since the aspirations of one group are different from those of any other group, the priorities of local government differ from municipality to municipality.

THE MUNICIPAL AUDIT

As in a business audit, both the law and the accounting profession require you to fulfill certain responsibilities. In addition, there are a number of peculiarities attached to the audit of a municipality in Alberta about which you should be aware.

Your Legal Duties

The principal pieces of legislation which govern your audit are The Municipal Government Act and The Department of Municipal Affairs Act. These Acts also authorize the Department of Municipal Affairs to prescribe the duties of municipal auditors.

Your particular attention is drawn to Sections 70, 71, 72 and 73 of The Municipal Government Act (R.S.A. 1980). The auditor is responsible for mailing a copy of the financial statement and his report to the Deputy Minister on or before the 28th day of February except for cities where the statement is required by June 1. According to Section 67 of the Municipal Government Act the Treasurer must cause a copy of the financial statement and auditors report, or the auditors report and a synopsis of the statement, to be published. The deadline for publishing this information is now June 15 for cities, and March 31 for other municipalities as provided for under Section 66 of the Municipal Government Act as amended.

The municipal auditor should be knowledgeable in the legal requirements of the many Statutes affecting local authorities, particularly The Municipal Government Act and The Municipal Taxation Act. Some of the Statutes that you may need during the course of your examination are listed in Appendix C. Each year you should obtain any amendments so that your copies are always up to date.

The following are examples of some of the legal requirements which the auditor should be aware.

The Municipal Government Act

The auditor should have a general knowledge of all aspects of this Act with particular emphasis on Sections 68 to 77 relating to the auditor's duties.

The Municipal Taxation Act

A general knowledge of all aspects of assessment and taxation of property authorized in this Act is required in order to conduct a proper audit.

The Tax Recovery Act

Section 28(1) requires that tax sale surplus monies be paid into a "separate tax sale trust account". This means a separate bank account not just a separate account in the records.

All the Acts listed have some feature which the auditor may require knowledge of during the course of a municipal audit.

All auditors conducting numerous municipal audits and/or auditors of large municipalities should also have a copy of Rogers' "The Law of Canadian Municipal Corporations" in their library in addition to the Statutes. One interesting case, from an auditor's viewpoint, is the decision handed down in the case of Thomas Versus Devonport Corpn. (1900) which held that "the duty of a municipal auditor is not confined to ascertaining that there are vouchers for each item in the accounts submitted but extends to investigating whether the payments represented by the vouchers are illegal or improper".

Professional Obligations

When you accept the responsibility for auditing a municipality, you hold yourself out as being capable of executing the assignment with professional proficiency and care. If you are a member of a professional accounting body you are obliged to comply with the professional standards and recommendations laid down by that body.

The Client's Expectations

Your municipal client engages you as a professional auditor and expects to be charged a professional fee, and is entitled to expect work of professional quality. For this reason it is imperative that you acquire a full working knowledge of municipal operations, municipal accounting and the various Statutes and Regulations concerned with local government. This body of knowledge is extensive. It will include, for example, complete familiarity with:

- the relationship that exists between provincial and municipal governments
- the accounting principles, organization and financial practices of various local government units
- the established duties of appointed officials and elected representatives
- the structure and responsibilities of your client's committees
- the procedural by-law and administrative policy decisions of the council;

- the municipality's policy for such matters as the financing of subdivision development and capital expenditure.

You may react to this statement by feeling that it is unreasonable for you to have to obtain this depth and breadth of knowledge - especially if you are undertaking your first municipal audit. After all, the art of local government is somewhat esoteric! Nevertheless, if you intend to audit a municipality, you must either become a specialist yourself or make sure you have a municipal specialist on your staff.

Audit Standards

The following generally accepted auditing standards as set out in Section 5100.02 of the CICA Handbook serve as excellent guidelines for the auditor of a municipality.

General Standard

> The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind.

Examination Standards

1) The work should be adequately planned and properly executed. If assistants are employed they should be properly supervised.

2) There should be an appropriately organized study and evaluation of those internal controls on which the auditor subsequently relies in determining the nature, extent and timing of auditing procedures.

3) Sufficient appropriate audit evidence should be obtained, by such means as inspection, observation, enquiry confirmation, computation and analysis, to afford a reasonable basis supporting the content of the report.

Reporting Standards

1) The scope of the auditor's examination should be referred to in the report.

2) The report should contain either an expression of opinion on the financial statements or an assertion that an opinion cannot be expressed. In the latter case the reasons therefore should be stated.

3) Where an opinion is expressed, it should indicate whether the financial statements present fairly the financial position, results of operations and changes in financial position in accordance with an appropriate disclosed basis of accounting, which except in special circumstances should be generally accepted accounting principles. The report should provide adequate explanation with respect to any reservation contained in such opinion.

4) Where an opinion is expressed, the report should also indicate whether the application of the disclosed basis of accounting is consistent with that of the preceding period. Where the basis or its application is not consistent, the report should provide adequate explanation of the nature and effect of the inconsistency.

The second examination standard requires a study and evaluation of internal control. While actual techniques of evaluation vary from auditor to auditor, the basic approach is the same and it applies equally to all audits, including those of a municipality. The Canadian Institute of Chartered Accountants has identified six steps in the study and evaluation of internal control:

1. Identify the accounting system and controls.

2. Make a preliminary evaluation of the system.

3. Determine the extent of and carry out tests of the system.

4. Assess the results of procedural tests.

5. Consider alternatives if controls are inadequate or ineffective.

6. Make a final evaluation of the system of internal control.

Appendix A of this guide provides a Municipal Audit Reminder List to help in evaluating internal control. Appendix B provides some specific audit procedures for use in municipal audits.

Accounting Principles

The municipal auditor should use the generally accepted accounting principles as described in the CICA Handbook to the extent that they apply to a municipality. Municipalities are a product of provincial legislation and the legal requirements regarding financial matters imposed on them via this legislation has precedence over GAAP.

Financial Statement Presentation

The form of financial statement presentation to be used by all municipalities in Alberta is prescribed by the Minister of the Department of Municipal Affairs under authority of Section 5 of the Department of Municipal Affairs Act. There is an ongoing revision of these forms aimed at improving both the reporting standards of municipalities and the usefulness of the financial statements.

Supporting schedules in the complete financial statements contain extensive information. You need not concern yourself with insignificant details in these schedules, but you must bear in mind that users of this information - your client, the provincial government, banks and other people interested in local government finance - expect it to be reliable. The supporting schedules must be certified by the treasurer and will likely be prepared with your assistance. You should ascertain the reasonableness of these schedules during the course of your study and evaluation of internal control.

The Auditor's Report

The CICA Handbook recommends that your report should contain a direct reference to the scope of your examination. As well, you should indicate clearly the financial statements which are covered by your examination and opinion. The auditors report, as shown in Exhibit 1 is that prescribed by the minister as part of the financial statement package. It is a modified form of that recommended by the CICA and meets all professional requirements when an unqualified opinion is to be expressed.

If you find you cannot express an unqualified opinion on the fairness of your client's financial statements, say so without equivocation and give your reasons for qualifications clearly and precisely as suggested by the handbook and demanded by legislation.

It has been noted that previously some Alberta auditors have made changes in the opinion portion of the audit report. Section 70 of The Municipal Government Act is not permissive - if you don't agree with the wording you should lobby through your professional accounting body for a change in the legislation.

Exhibit 1

AUDITOR'S REPORT

The Mayor or Reeve and Council or:

.....

We have examined the Consolidated Balance Sheet of .....as at December 31, 19_ and the related statements of Combined Operating Revenues and Expenditures, Combined Capital Financing Acquired and Applied, Taxes Levied and Grants-in-Lieu, Consolidated Statement of Surplus (Deficit) and Consolidated Statement of Equity in Fixed Assets and the schedules supporting these statements for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the municipality as at December 31, 19_ and the results of its operations and changes in capital financing for the year then ended in accordance with the disclosed basis of accounting described in Note 1 (page 7) applied on a basis consistent with that of the preceding year.

Dated at .....this.....day of.....19.....

Signed ..... Firm.....

Address .....Telephone:.....

Postal Code .....

THE AUDITOR

Appointment, Dismissal, Powers and Rights

Your appointment is made when the council of a municipality passes a by-law or resolution to that effect. Section 68 of The Municipal Government Act sets out the rules for appointment of an auditor and specifically prohibits the auditor from holding any other office in the municipality. There does not need to be cause for dismissal as auditor. All that is required to change auditors is a new appointment by council and notification in writing to the former auditor by June 1st. If, after private discussion with you, your client decides to change its auditor, you will probably want to accept the situation and co-operate with your successor. Guideline 201.12 to 201.16 of the Institute of Chartered Accountants of Alberta, while referring throughout to the position of an auditor appointed under The Business Corporations Act, is applicable in principle to a municipal auditor. In particular, your responsibility is to protect the rights of the inhabitants of a municipality, just as in a business corporation appointment your responsibility is to the shareholders. The following is a precis of these guidelines.

> On occasion, the question arises of the duty of a chartered accountant appointed to act as an auditor at the annual general meeting of an Alberta or Canadian company, who is asked by the directors to resign before reporting. In summary, the auditor of a company is appointed to represent the shareholders and has a duty to them. He should never lightly resign his appointment before reporting and should not resign at all before reporting if he has reason to suspect that his resignation is required by reason of any sharp practice, impropriety, or concealment,

> which it is his duty to report upon. Subject to that general statement however, there may be exceptional circumstances in a particular case which would justify his resignation and this will be a matter of individual judgement in each case.

Under the Municipal Government Act you have extensive powers as a municipal auditor. These powers include the right to demand to see any and all documents of the municipality and the right to require any member of council or appointed official of the municipality to provide you with any information or explanation necessary for the performance of your duties.

Traditional Role

Traditionally, it has been a responsibility of auditors at all levels of government to ensure the absence of technical irregularities by seeing that

- money was spent with proper authority
- regulations for uniform accounting and financial procedures were observed
- accounts were kept correctly and honestly
- budgets were observed and spending kept within its limits.

In the past, municipal auditors have been expected to perform at least a part of this traditional role. Today however, in a well administered municipality, the likelihood of technical irregularities is minimized by an adequate system of internal control. If your evaluation of this system is reliable, it should not be

necessary for you to examine every transaction of the municipality for its legality. Appointed officials, acting within their terms of reference established by the council, are responsible for administering your client's affairs in accordance with the relevant legal requirements.

Filing Of Reports

As stated previously it is the auditor's responsibility to file a copy of the municipality's annual financial statement with the Deputy Minister of Alberta Municipal Affairs by the appropriate due date. When you make a report to the council on any matter which relates to your audit, you should send a signed copy to the Deputy Minister of Alberta Municipal Affairs. This requirement includes original, amended or supplementary auditor's reports - and any reports concerning defalcation or irregularity. Apart from this requirement, you may feel there are problems developing in a municipality of which the Department should be kept informed. If so, it will be pleased to receive a report from you.

Dealing With Defalcation, Control Weaknesses and Material Illegalities

The general public - including the inhabitants of your client municipality - is greatly concerned about the misappropriation of public funds. Whatever may be your true obligations, most laymen persist on looking upon the municipal auditor as their main safeguard against fraud. If it exists, they expect you to uncover it! Of course, your prime function is not that of discovering embezzlement - and there is certainly no greater legal or professional obligation on you to do so in a municipal audit than there is in a business audit.

When you discover control weaknesses during your audit, your reaction will depend upon your judgement of their importance. You should not hesitate to

report all control weaknesses, together with your recommendations for improvements, to the appropriate level of responsibility in the municipality. You will probably decide to deal with the treasurer or with other appointed officials in routine matters. However, more important problems should be dealt with in a report addressed to the council, or to the head of the council.

Even in the best administered municipalities, mistakes and illegalities can occur. If your client has engaged in activities or entered into contracts which are beyond its legal powers, it exposes itself to contingent liabilities. You must decide whether or not these liabilities are material. You can ask your client to seek the advice of its solicitor in determining its authority for its actions and you should feel free to seek separate legal advice if there is any uncertainty in your mind. In the final analysis, the decision on materiality is your own. Remember that it generally serves no useful purpose to attract attention to potential liabilities which are not material. If a material contingent liability exists, it is reflected in the notes to financial statements; if it is not, you should disclose it in a qualification of your report.

While many of the problems mentioned above are of a routine nature, there will be occasions where fraud, control weaknesses, illegalities or abuse of office affect your opinion on the fairness of a municipality's financial statements. In such instances, you must report the facts to the inhabitants and ratepayers of the municipality. Officers of Alberta Municipal Affairs are available to discuss the matter with you and they may be able to help you decide how to proceed.

Management Letter

The management letter has become an important part of the corporate audit; it should hold the same status in the audit of a municipality. Such a letter should

be addressed to the chief administrative officer. Its primary goal is to identify any significant errors, irregularities or suspicious circumstances encountered during the audit and outline any significant weaknesses in the system of internal control. It should provide suggestions for the improvement of the internal control system, the financial planning system and the accounting system where practicable.

Providing Special Services

If you restrict your services to what is legally and professionally necessary, you can do a satisfactory job and justify a reasonable fee. But if you accept the challenge available to a municipal auditor, you will have many opportunities to provide your client with service beyond your normal audit function.

One of the most frequent opportunities you may have for rendering special services is in helping your client develop its accounting or information system to cope with demands of growth and change. Few municipalities have adequate staff resources to keep up-to-date with every advance and advantage of modern business methods. You are probably the professional advisor who is best able to help your client improve its accounting and information systems. Indeed you may be selected as municipal auditor on the basis of your knowledge of finance and accounting and on your consequent ability to contribute to the improvement of your client's operation.

Another service you can offer is your assistance in preparing both the current and long-term budgets. The setting of expenditure priorities and financing policies is a responsibility of the council - but the task of putting together a package of budget information is a task which may challenge the most proficient municipal treasurer. You might well make an informed review of the budget to help ensure that the information in it will enable members of the council to grasp clearly the effect of new projects, rising costs or changes in the provincial government grants.

Your client may wish you to help it upgrade its personnel in the treasurer's department. As knowledge grows increasingly specialized, it is becoming difficult for a personnel officer to interview, hire and train new staff without the advice of an expert. Your opinions will be valued highly in setting policies for staff selection and training.

But perhaps the service you are best equipped to offer is that of introducing improved business methods. In fact, unless someone with your combined knowledge of your client's problems and your general business experience strives to find ways of increasing municipal administrative efficiency, the existing system may never improve. No doubt as a part of your regular audit you will advise your client of any weaknesses you have observed in its system of internal control. When you go further and offer your advice on methods of improvement, you provide an invaluable service because you will stimulate an increased awareness of possible improvements in operational efficiency.

You should have a clear understanding with your client on the services you provide in addition to your regular audit. The by-law or resolution which appointed you should be supplemented by letters of agreement covering the extent and fee for any special services which are additional to your audit. You can also avoid misunderstandings if you distinguish between your audit and your special services by billing each separately.

One final word. Elected representatives and appointed officials are, with rare exceptions, dedicated servants of the public, striving to improve the quality of the environment within their municipality as effectively as possible. Local government is complex and communities are demanding an increasing level of service. You have the opportunity to share in meeting the needs of the future, not only in challenging professional work, but also in contributing to the improvement of the quality of government in your client's municipality.

REVENUE

BASIC ELEMENTS OF INTERNAL CONTROL

The systems for controlling municipal revenues and cash receipts differ from one municipality to another. They range from cash to accrual accounting and from handwritten receipts to complex computer operations; the level of sophistication depends upon local circumstances. However, the systems are in essence the same as you find in a business corporation. You can evaluate your client's internal control only after you have made a detailed investigation of its systems.

Before you begin your audit, look through the by-laws and identify the policies fundamental to the revenue systems. You should also examine the council minutes for any resolutions pertaining to revenues. Included in these policies are the delegation of responsibilities for billing and collecting revenues, agreements with other municipalities and fees charged for municipal services.

Tax billing and collection policies, including dates of tax installments and rates of penalties on unpaid taxes must be approved by a council by-law. The council sets license fees, charges for the use of municipal facilities (such as arenas and golf courses) and rates to be charged for municipal services. If the council has entered into a joint agreement with another municipality, the details are in the by-law ratifying the agreement.

The treasurer, the appointed official most closely involved in the control of municipal revenues, has a statutory duty "to collect, receive and safely keep all monies belonging to or accruing to the municipality". Usually the council assigns him other, far more extensive, duties. They include:

- developing an accounting system to control municipal revenues
- compiling the municipal estimates
- advising the council on optional methods of raising revenues
- maximizing miscellaneous revenues such as short-term interest.

When you review internal control over municipal revenues you should remember that almost all major defalcations in municipalities have involved misappropriation of income.

FEATURES OF MUNICIPAL REVENUE

In Alberta, operating revenues are classified in the financial statement in two ways. In the audited portion of the statement, they are classified by function for revenues which can be functionalized, with all other revenues classified under the heading "General Municipal Revenues". The supporting schedules provide detail on the functionalized revenues, classifying them according to object.

The following is a description of the various revenue sources found in a municipality.

Taxation Revenue

The authority to levy and collect property taxes rests only with municipalities. Taxation is the major source of revenue under the direct control of the municipal council. It is primarily the municipality's ability to raise future taxes that determines its financial strength. The system used for raising taxes is unlike any method of revenue raising used by business corporations. Taxation

revenue accrues to the municipality through the imposition of charges, known as mill rates, against the assessed value of property, to raise revenue for the provision of services.

Taxes include levies against real property (lands, buildings, and improvements), special assessments (frontage taxes or special local benefit levies), and taxes against business made under the authority of a business assessment by-law. Taxes are levied also on any electric power lines, pipelines, and oil well drilling equipment that may be located or laid within the municipality.

1. The Assessment Roll

The municipality must appoint an assessor (Section 81 of The Municipal Government Act) who can be a private assessor or an assessor of the Assessment Services Division of Alberta Municipal Affairs. By January 31 of each year the assessor turns over to the municipal secretary the returns of the assessment made by him. The municipal secretary then prepares the assessment roll based on the assessors return and must complete same by February 15 in the year following the year in which the assessment has been made. The municipal secretary then mails assessment notices on each new assessment and has published in the local newspaper a notice indicating that the assessment roll has been prepared and is open for inspection by February 28. Individuals have the right to appeal from their assessments to the municipality's appointed Court of Revision. The ratepayer has thirty (30) days from date of the mailing or publishing of the notice to complain.

Any changes authorized by the Court of Revision are made to the assessment roll by the municipal secretary. The ratepayer may appeal the Court of Revision decision to the Alberta Assessment Appeal Board which may direct the municipal secretary to further amend the assessment roll.

No further changes can be made in the assessment roll except for errors discovered and corrected by the assessor by the filing of a new return.

The basis for the annual tax levy is the corrected and revised assessment roll. The municipality should review the assessment roll for errors before using it. Examples of tests that should be conducted are:

- comparison of building permits and water connections to the supplementary assessment rolls in order to ensure new properties are assessed upon completion

- review of the previous year's supplementary assessment rolls to ensure that all the properties entered therein have been correctly entered on the new assessment roll

- check of properties for incorrect classification - especially tax exempt properties - to prevent unnecessary loss of revenue to the municipality

- comparisons of assessment totals to previous years to test for any obvious errors

- comparison of the ratio of assessment to population with that of previous years to verify reasonableness of the roll

- review of assessments for possible appeals

- comparison of properties on a map to the assessment roll to check omissions (this type of test can be very difficult to conduct in subdivided properties in a rural municipality).

2. Mill Rates

A municipality calculates mill rates by using this formula:

$$\frac{\text{Taxation revenue for a particular requisition} \times 1000}{\text{Total applicable taxable assessment (including G.I.L. properties)}}$$

The resulting mill rate is then used as a factor which is applied to the assessed value of each taxable property in order to calculate the amount of tax payable. Section 93 of the Municipal Taxation Act is the enabling legislation for the establishment of mill rates. Mill rates for residential, farm, commercial, business and special area rates must be approved by the council in a tax rate by-law.

Residential and farmland assessments are taxed at a lower mill rate than commercial property, because they are exempt from the School Foundation Program Fund levy. There are exceptions to these general rules and you should consult The Alberta Property Tax Reduction Act for unusual cases.

Business tax is calculated by applying the business tax mill rate to the assessed value of the business premises or by applying a percentage of rental value as laid down in The Municipal Taxation Act. Business taxes are not a charge against the owner of the building in which the business operates. Therefore, in collecting unpaid business taxes, a municipality has the right to seize the chattels of the business in default - but not the real property.

Often, the ratepayers in a portion of a municipality request a special service which is not provided to all ratepayers. The council can then tax those ratepayers to pay for the special service subject to provisions of the Municipal Taxation Act and Municipal Government Act.

3. The Tax Roll

The tax roll takes many different physical forms such as ledgers, copies of tax bills, and accounting machine print-outs. It is compiled by extending the individual assessments in the final assessment roll by the mill rates and then adding the special charges. The tax roll records against each property and business, all taxes - plus other amounts added to the tax bills - for the year. It is imperative that municipal officials ensure that all changes made to the assessment roll are reflected in the tax roll.

4. Preparation of Tax Bills

The council establishes policies setting dates when taxes are due. There is no statutory limit to the possible number of tax installments, and taxes may be prepaid in any amount in any year and thereby receive the applicable discount if provided for in by-law, before the current annual revenue estimate is set. Sometimes special charges, which are not calculated from mill rates, are billed to some taxpayers. Some of these special charges (such as local improvement and drainage charges) create accounting problems because a project results in a different charge for each property affected. Your client's accounting system must be adequate enough to allocate each charge correctly. These special charges represent a form of taxation that must be shown separately on the financial statements. Other charges (such as reclamation for weed control, which do not represent taxation) can be added to the tax bill for collection if provided for in provincial legislation.

5. Supplementary Taxes

Under the Municipal Taxation Act, council has the right to enact a supplementary assessment by-law which allows the municipality to tax properties which have been added to the role after January 31. The

Act requires that where such a by-law has been enacted, the supplementary taxes be levied on a pro-rate basis, the date of improvement completion or occupancy being the date of adjustment. In order for the supplementary taxes to be valid for a given year the property must be assessed and entered on the assessment roll, and the assessment slip must be mailed, prior to the end of that year.

6. Collection of Taxes

A municipality charges penalties on unpaid taxes in order to encourage prompt payment. Penalties can be charged for tardy payment of taxes in the year they become due and on arrears remaining unpaid. The council must pass by-laws stating the rates to be charged within upper limits set out in The Municipal Taxation Act.

An adequate system of control must be developed by the municipality to ensure that applicable penalties are always charged and paid. In this way a loss of revenue to the municipality is prevented.

A municipal corporation may act through the district court and use bailiffs to obtain payment of business taxes. It also has final recourse to a special procedure to enable it to collect overdue property taxes - registration of tax notification and eventual sale of the property. In the first instance, every municipality is required by The Tax Recovery Act to register a caveat against the property by April 1 in the year the taxes have been in arrears for more than one year. One year from the filing of the tax notification and up to three years after, the council may sell the land at public auction after first having given proper notification of its intention to do so to every person whose name appears on the assessment roll as having an interest in property. Sections 9 - 28 of The Tax Recovery Act should be consulted for tax

sale, acquisition, redemption, transfer of title and distribution of proceeds of sale procedures. "How to Recover Taxes - A Guide for Alberta Municipalities" has been published by Alberta Municipal Affairs and should be available in the municipal office.

Sales to Other Governments

Revenues used under this classification accrue for "bulk" services provided by one government for use or dispensing by another government, and are normally covered by some form of agreement. For example, provision of water or sewer services from one municipality to another.

Sales of Goods and Services

Revenue from the sale of goods and services accrues to the local government for services or goods supplied to individuals, corporations, or governments, for their own use or consumption. These include charges for use of water, gas, electricity, transit, parking.

Other Revenue From Own Sources

"Other revenue" accrues by exercise of a local government's powers other than the above. Examples include: licenses and permits, fines, rentals, franchise fees, interest on investments, penalties and costs on taxes and accounts receivable, profit on sale of fixed assets, contributions or gifts, and insurance proceeds.

Other Government Revenue Sources

These revenues are derived from other levels of government and may be conditional or unconditional in their stated use. If unconditional, they may be used in any way the entity chooses. If conditional, some type of service must be

provided, basically on behalf of the other government, to qualify for grant funding.

Examples of contributions from senior and sister levels of government include: grants-in-lieu of taxes, federal labour-intensive oriented grants, transportation assistance grants, accommodation assistance grants, requisitions upon sister governments, unconditional municipal assistance grant, family community support service grants, recreation grants, and other operational assistance grants.

1. Grants-in-Lieu of Taxes (G.I.L.)

The accounting controls over grants-in-lieu of taxes are usually straightforward. Properties subject to grants-in-lieu of taxes are shown as tax exempt on the assessment roll. After the mill rates are set the municipality applies to the appropriate body for payment.

It does not necessarily follow that tax exempt properties all result in receipt of grants-in-lieu of taxes and the reader should consult The Municipal and Provincial Properties Valuation Act for rules governing this matter.

Payments from some government bodies take a long time, so the accounting system must be capable of providing control over this revenue.

2. Transfers

Transfers from the provincial government are a complex and rapidly changing form of municipal revenue that is difficult to audit. Background details on most of the important programs such as road, water and sewer subsidies, are readily available.

The main source of information about provincial subsidy programs is a manual entitled Alberta Municipal Assistance Programs. This publication is updated and distributed annually to all municipalities and auditors by Alberta Municipal Affairs.

Other Operating Revenues

This classification primarily covers inter-agency revenues, and includes all reserves and allowances taken into revenue in the current year. These could consist of prior years' surplus, reserve for future expenditures, and allowance for uncollectable accounts, as well as transfers from other funds and agencies controlled or operated by the municipality.

THE REVENUE AUDIT

Adaptations of normal audit procedures are only suggested in this section - always use the procedure you feel is most appropriate to the circumstances.

General

When you begin to review your client's revenue system you should obtain a copy of its budget. It provides details of all major sources of revenue, and also lets you know how much revenue is expected. At the year end, variation between the budgeted and actual figures may indicate that further investigation is required.

An error in the revenue system may result in a material misallocation of the tax burden among ratepayers. So, in addition to the usual problems of measuring

materiality in the effect on the financial statements, you should also consider the effect of error on an individual ratepayer.

Taxation Revenue

You should review the taxation revenue of the municipality by considering the taxable assessment, the annual estimates and the effect of statutory provisions. Your client must levy all supplementary taxes if provided for by by-law. Taxes which should have been included in the original tax levy, but were excluded because of errors or omissions in the roll must also be levied.

Your client may not exercise discretion about supplementary taxation or assessment roll corrections. Failure to bill and collect these taxes results in revenue for the year being understated in the financial statements.

Your interest in the accuracy of the assessment roll is crucial because it has a bearing on whether the taxation revenue for the year is fairly reflected in the financial statements. But you need not concern yourself with the valuations that are entered in the assessment roll; they are the responsibility of the assessor and are subject to appeal procedures.

Nevertheless you should be concerned about whether or not your client has made an adequate review of the assessment roll to ensure that:

- the valuations determined by the assessor have been accurately entered in the assessment roll

- any properties originally omitted from the assessment roll are billed the correct amount

- if applicable, any new construction (which was not included in the assessment roll from which the original tax levy was calculated) is billed for the correct amount of supplementary taxes.

You may find the procedures outlined in the CICA audit study "Confirmation of Accounts Receivable" are a useful guide when you plan your tests of taxes receivable. Both the CICA audit study and Handbook suggest that when internal control is not effective, confirmation should be made at or near the year end.

Transfers From Other Governments

You can confirm the amounts paid to the municipality during the year by contacting the appropriate government department or agency, or the other municipality, which made the payment. Government departments and agencies operate on a cash basis and cannot confirm the balance outstanding at the year end. Alternative procedures should be used together with any other test you consider necessary in the circumstances.

You should examine the grant claim and the paying agency's reaction to it - was the claim allowed, denied, or only partially allowed? Comparing these forms with month end or year end statements will indicate the reliability of the municipality's year end accrual.

Details of payments-in-lieu of taxes and joint municipal agreements are available in the treasurer's or secretary's office.

Other Revenue

The schedule of fees for municipal services, licenses, and so on, can be traced from by-laws approved by the council. You may find it helpful to prepare a list

of these by-laws and update it by looking through the minutes of the council to compare the sources of revenues from year to year. You can also see if there are any new sources of revenue which the municipality has developed.

Wherever necessary, you should press for improvements in control over other revenue. Your influence may result in improvements to the accounting system that will make it unnecessary for you to qualify your report year after year. You are engaged to make a report on whatever you deem necessary. You should not accept the excuse of poor control to avoid this responsibility, but you should continue to impress upon the council and the administration the need for improvements until it acts.

EXPENDITURES

The nature of the municipal structure dictates the complexity of your audit of municipal expenditures. As we have explained, each municipality has developed a structure to meet its own local needs; your client has developed the systems and sub-systems necessary to meet the expenditure requirements of its own particular structure. Usually, the power to purchase and receive has been left to each department. The requisitioning and receiving functions will remain decentralized even in municipalities which have central purchasing departments. In your review of internal control, you have to become familiar with most of the systems of your client's departments.

The systems you are evaluating during the expenditure audit will also be used, with only slight modifications, to process payments for capital expenditures. Your capital audit is therefore partially dependent upon your evaluation of the expenditure system.

BASIC ELEMENTS OF INTERNAL CONTROL

Introduction

Policy and procedures are dictated by local circumstances, therefore, there are differences between systems of internal control. However, similarities exist between municipalities in their organizational patterns and financial reporting requirements.

Policies and Procedures

Policy decisions involving the expenditure system are made by the council. Matters of policy which you should find include: the

assignment of responsibilities for the control of expenditures, personnel policies and policies for purchasing and tendering.

Appointed officials establish procedures for purchasing, payment of accounts, preparation of annual estimates, payroll compilation, control of inventories, and the preparation and distribution of financial reports. The standard method used for controlling municipal expenditures is for the council to allocate responsibilities to various levels of management and then to exercise control by requiring adherence to the expenditure budget.

Allocation of Responsibility

The Council

The council concentrates its energy on overall control; it defines the type of large or unusual expenditure that requires its explicit approval. The remaining transactions are handled by appointed officials with the council using information from the budgets and the financial reporting system to manage the municipality's affairs. The council takes little direct part in purchasing procedures, although there may be exceptions in small municipalities.

Committees

Committees exercise a strong influence in the control of expenditure. If control has been delegated to committees their responsibilities should be defined clearly by the council.

Chief Administrative Officer

The council usually delegates the responsibility of expenditure

control to the chief administrative officer. He plays a key role in the initial budget preparation and in the review of regular monthly financial statements. It is the chief administrative officer's responsibility to ensure that the financial reports are provided to council on a timely basis so that any necessary policy changes can be made before serious financial problems occur. The chief administrative officer is the liaison between council and administration and holds the responsibility for keeping council informed.

Department Heads

The appointed head of each department usually provides direct control over expenditure. Except where purchasing is centralized, each department is responsible for its own requisitioning, purchasing, warehousing, and approval for payment. The council, through the chief administrative officer, maintains control over departments by requiring justification of each program before allotting budgeted funds. In larger municipalities, monthly financial statements provide the information for the department heads to maintain control. A department head must always be able to explain any material variances from budgeted expenditure.

The Treasurer

Provincial legislation makes the treasurer responsible for the receipt and disbursement of the corporation's money. This concept is a legalistic and limited description of the treasurer's responsibility. The progressive treasurer also provides many other services to improve the municipality's management of expenditures. The treasurer:

- installs and operates a centralized system for the payment of accounts
- designs, prepares and distributes the internal financial statements

- advises the appointed department heads and chief administrative officer when expenditures threaten to exceed budget and points out where economies may be affected.

Budgetary and Reporting Controls

A municipality should have an accounting system that highlights unfavourable expenditure patterns. Well defined budgets and accurate current financial statements should be in a form such that both the administration and the council can readily compare actual and budgeted expenditures.

Every municipality is required by law to prepare and adopt estimates of the amounts required during the year, but your client's budgetary system should far exceed this statutory requirement. The preparation of a good budget follows these general guidelines:

- it is based on objective data and informed opinion

- it is prepared in advance of actual expenditure

- expenses are classified by department so that each appointed department head is aware of his responsibilities and expenditure limits

- management becomes involved in the budgeting process and accepts those expenditure limits for which they are responsible

- expenditures which occur seasonally (e.g. road maintenance, recreation and snow clearing) are budgeted on a seasonally adjusted pattern.

Reporting and budgeting controls cannot be separated. A budget is only as effective as the reporting system that compares it to actual expenditures. You should concentrate as much effort on examining the effectiveness of the reporting system as you do on the budgeting system. Features that you should expect to find in the reporting system include:

- reports prepared on a periodic basis, at least once monthly, made to the council and the appropriate appointed officials

- current financial information in a form suitable for control of expenditure

- variations from budgeted expenditure noted and appropriate action taken

You may have difficulty in deciding where effective financial control is exercised in the municipal structure. In many cases it can be pinpointed only by locating which official takes the necessary controlling action. It is important to ensure a system of management control and delegated responsibility is in place for effective internal control.

EXPENDITURES DEFINED AND CLASSIFIED

Local government expenditures cover the full range of materials, services and supplies available in the marketplace. The following is a brief description of expenditures classified on the basis of object.

Salaries, Wages, and Benefits

This standard object covers remuneration and pay for all employees including

those elected, whether paid directly to employees or to others on their behalf (fringe benefits). It includes salaries, wages, employer contributions to benefit plans, pay while absent from work, and fees paid for regular or special services rendered.

Contracted and General Services

This object covers classification of expenditures made to acquire services from the business sector, and may be broken down to subsistence (board and lodging, moving expenses, course fees and travel), transportation and communications, information, printing, publications, professional services (accountants, lawyers, consultants), purchased repair and maintenance of fixed assets, rentals of fixed assets, and expenditures for miscellaneous services such as licenses and permits, damage claims and taxes.

Purchases From Other Governments

This includes expenditures on services acquired in bulk from another government or regional services commission for redistribution. An example is purchase of water from another local government for distribution within a municipality.

Materials, Goods, Services, and Supplies

The standard object covers items purchased as materials and supplies such as food and beverages, crude materials, fabricated materials, utilities, building maintenance supplies, parts and consumable tools and other miscellaneous goods.

Transfer Payments

This object is used to identify contributions made from a specific fund of the

local government to any person, organization, reserve, other fund of the local government, or to other levels of government.

Financial Charges

This standard object covers items associated with interest on long-term and short-term debt, principal payments on debt, discounts and costs of issuing and selling debentures.

TRANSACTIONS SUBJECT TO SPECIFIC STATUTORY CONTROL

For many transactions, the law is explicit in restricting the ways in which money may be spent. As the municipal auditor you should assure yourself that these legislative requirements have been met.

Earmarked Revenues

Amounts raised by special rates and charges can be paid out only for specified purposes. Some major examples are:

- school foundation program fund levy: payment of taxes levied by Alberta Education under the School Foundation Program fund are to be paid out in equal installments on or before May 1, August 1 and November 1 each year

- supplementary school requisitions: payment of taxes levied for a school district or division in addition to the school foundation levy by equal quarterly installments on or before the 15th day of the months of March, June, September and December of each year

- **hospital district requisitions: payment of special hospital taxes requisitioned on the municipalities in the hospital district to be paid before July 1 each year.**

Excess levies for these requisitions have to be carried forward to the next year and applied as an offset when establishing that year's levies.

Non-cash Transactions

These transactions are those which do not involve the actual transfer of cash but appear as expenditures in the annual estimates. The most important are:

- **transfers to reserves**

- **current taxes cancelled or refunded: current taxes may be cancelled or refunded only in accordance with the provisions of The Municipal Taxation Act.**

Contributions, Grants and Subsidies

A municipality makes grants to bodies and in amounts only as permitted by Statute. If you have any doubts about the legality of any payment you should ask the pertinent municipal officials to give you their authority for making the payment.

THE EXPENDITURE AUDIT

While your audit approach should be the same as that for a business client there are a few wrinkles to auditing municipal expenditures that you need to note.

If you find there is no clear definition of responsibilities between different appointed officials - or if there are any other material weaknesses in financial control - you should make a report to the council and recommend improvements in the system. Your reaction to any situation should be guided by your professional opinion in the circumstances - materiality should always be considered.

Many expenditures within a municipality are regular and predictable due to their non-volatile nature and the limitations of budgets. This fact should make variance analysis one of your more important audit tools; an examination of variations between budget and actual expenditure should reveal any unusual patterns for the year.

In addition to the usual difficulty in determining when expenditures are cut off at year end, you may find that your client uses commitment accounting. As a general rule, only the legal obligations of the municipality should be recorded. If goods and services have been ordered but have not been received - and title has not passed - then there is no legal obligation to pay and no expenditure should be recorded. This is the generally accepted accounting principle for year end cut off.

CAPITAL

CAPITAL IN THE MUNICIPAL CONTEXT

The word "capital" has a specific meaning in the municipal context: it is used to describe the transactions of capital functions, including both long-term (i.e. capital) expenditure and long-term financing. All long-term expenditures, regardless of financing, are reported in its capital accounts. Examples of capital financing include borrowing through debenture issues, contributions from other governments, developer levies, and contributions from operating revenue for capital expenditure.

Major capital projects, by their nature, require a long time to plan, finance and complete. They frequently extend beyond the lifetime of a single elected council and their cost can profoundly affect the financial position of a municipality. For this reason, many restrictions and preliminary administrative procedures have been written into legislation. When you evaluate the propriety of capital transactions, you must have a detailed knowledge of the pertinent legal restrictions and required administrative procedures.

The provincial government provides substantial capital assistance to municipalities in order to encourage a high standard of service to their inhabitants. You should be familiar with these assistance programs, both in order to perform an effective audit and also to ensure your client is obtaining the maximum financial assistance available to it.

In most municipalities, each capital project is regarded as unique, and is processed as a separate cost center. You should organize your approach to the audit of capital accordingly.

THE CAPITAL PROJECT - PRELIMINARY STEPS

Whatever the source of financing for a capital project, there are legal requirements which must be observed in obtaining the financing, as well as desirable administrative procedures.

Long-Term Financing - Minimum Procedures

The municipality's first step in acquiring long-term financing is for council to pass a by-law to approve long-term borrowing. Application is then made to the Alberta Local Authorities Board (LAB) for authorization of a debenture issue. The LAB issues an official Board "Order" to approve a debenture issue. This Order is signed and sealed, and sets out such details as: the project cost, the amount and term of the debenture issue, and permission for temporary financing pending the sale of debentures. The majority of debentures sold in Alberta are to the Alberta Municipal Financing Corporation (AMFC).

The minimum procedures which are followed to obtain long-term financing from the provincial government vary from program to program. In general, it is essential to obtain the approval of the agency responsible for administering the relevant grant or loan program before a capital project is begun.

Your client will experience serious financial and legal difficulties if it fails to follow these minimum procedures when obtaining long-term financing for a project which has already started. The municipality is then in the embarrassing position of having to finance an unapproved project from current revenues.

A guide is distributed by the LAB to municipalities to assist them in making application for debenture borrowing. Portions of this guide are reproduced for your information in Appendix D.

Long-Term Financing - Internal Procedures

Most municipalities find a long-term capital budget indispensable for management purposes. This budget is prepared, on direction from council, by the treasurer in close consultation with the chief administrative officer and the appointed department heads who are responsible for actually spending the money. It shows all proposed capital expenditure, all the proposed sources of financing and the anticipated effects upon the current revenues and expenditures for at least the next five years. The long term capital budget is reviewed and updated by the council every year.

Capital Expenditure - Internal Procedures

In addition to the long-term capital budget, a detailed capital budget is developed for the current year in order to provide control over capital expenditure in that period. Cost and financing records are kept for each project so that actual costs can be compared with the estimated costs and the contract terms. If at any time during a project, the actual costs are exceeding either the anticipated costs or the amount that the LAB has authorized, the deviations should be reported so that the appropriate official or the council may take prompt corrective action.

The council passes a by-law approving the project and its financing. Tenders for capital projects are called in accordance with the established practice of the municipality. The advice of the municipal solicitor on any proposed contract should be obtained before the council signs and seals it.

An adequate amount of performance bonds or cash deposits, together with liability insurance, should be obtained from the contractor for each project.

Summary of Documentation

Once you become familiar with the preliminary legal requirements and internal administrative procedures relating to a capital project, you should have no difficulty in deciding on the documentary evidence you will want to examine during your audit. The documents generally available for your examination include:

- a by-law approving any long-term borrowing and the project
- a LAB Order approving any long-term borrowing
- approval from the appropriate government department or agency of any project for which grants or loans are anticipated
- the long-term capital budget
- tenders for construction (if required by the procedural by-law)
- the construction or purchase contract, showing all details and terms
- appropriate project records showing costs and financing.

Local Improvements

The Municipal Taxation Act authorizes municipalities to install services such as sewers, water mains, street lighting and sidewalks, and to recover the costs from benefiting landowners. These services are usually financed by issuing debentures and recovering the debt charges from landowners over a period of years.

Local improvements entail statutory requirements concerning LAB approval, the apportionment of cost and the appealing of the footage.

For capital projects under The Municipal Taxation Act, approval of the LAB is obtained for the project, if it was initiated by the municipal council or if it was initiated by a petition of landowners and debenture borrowing is required.

The documents you may expect to find available for examination include in the case of a project carried out under The Municipal Taxation Act:

- the original by-law authorizing the project with the LAB's required approval
- the treasurer's report of costs
- the local improvement assessment roll
- the council's minute adopting the local improvement assessment roll.

THE CAPITAL PROJECT IN PROGRESS

You might find it helpful if we reviewed a "typical" project through its stages of construction and financing. Bear in mind that not all the steps outlined here are pertinent to all capital projects. For example, where vehicles are being purchased or where a road widening is not being financed by debentures, some of these steps do not apply.

Temporary Capital Financing

Occasionally the initial stages of a project are financed by temporary borrowing. Money may not be borrowed on a temporary basis until after the council has passed a by-law authorizing the project. Banks

generally require a certified copy of this by-law, an application for a temporary loan, a copy of the LAB Order for the project and a LAB temporary financing Order.

Temporary borrowing for capital purposes is limited by Statute to the amounts specified in the LAB Order. Temporary funds obtained for capital projects may be used only for those projects and for no other purpose; they are repaid when the project is permanently financed - either from the proceeds of the debenture issue, or from the relevant government grants and/or from other sources.

Contract payments

All progress payments are made in accordance with the contract authorized by the council. The project is inspected by the municipal engineer - or by a consulting engineer or architect - who then certifies the payment request from the contractor before it is paid. Payments which are for "extras", or in excess of the contract agreed to by council, are also approved by the council before payment is made. Payment of the holdback after the completion of the project is also approved by the council, after approval of the engineer or architect, as in some cases this payment releases the contractor from further obligations.

Subsidies or Grants

As an auditor you may be involved in the procedure for claiming subsidy or grant payments from different departments of the provincial government. Procedures for paying subsidies or grants vary from program to program, and the accounting criteria by which provincial departments distinguish between capital and non-capital projects may not coincide with your client's accounting principles.

It is possible to confirm directly with the appropriate provincial government department the amount of subsidy or grant paid to a municipality during the year.

Control of Debentures

Rigorous control should be maintained over debentures. Once debentures have been signed by the Mayor or Reeve and the Treasurer and have been sealed, care must be taken during their delivery to the purchaser.

Payments on debentures to AMFC are usually handled by the municipality's authorized bank through a pre-authorized payment procedure. The debenture register is used by the municipal treasurer to maintain accounting control over debentures. A system should exist at the bank to cancel matured debentures before they are delivered to the municipality.

Excess Debenture Proceeds

You should know the legal limitations on the use of debenture proceeds which are in excess of the cost of the project for which they are issued. Any excess funds realized from a sale of debentures may be applied only with the approval of the LAB to meet other capital expenditures as authorized by the Board pursuant to section 394 of The Municipal Government Act.

Disclosing Material Commitments

You should realize the practical problem involved in providing full and clear disclosure of all material commitments at the balance sheet date. A long time

may elapse during the planning of capital projects, the obtaining of the council's agreement, the completion of the preliminary legal steps and the obtaining of permanent financing. As a result, there may be a lot of confusion about just when your client is actually committed to make capital expenditures, as well as the actual amount of its contractual obligations. Nevertheless, as recommended in the CICA Handbook, all contractual obligations and commitments for capital expenditure that are abnormally large in relation to the usual operations of the municipality should be reported in a note to the financial statements. The note should also disclose the proposed financing of the projects, so that it indicates clearly the effect the commitment will have on the financial position of future operations of the municipality.

THE CAPITAL PROJECT AFTER COMPLETION

In your evaluation of your client's internal control, you may want to examine the system of record keeping for fixed assets, and also to advise your client concerning the control over fixed assets.

The sale, disposal or abandonment of assets should be authorized by the council or through council policy. Procedures vary depending upon the municipality, however, it is often considered worth the cost to have an independent appraiser value an asset before sale or tenders may be called for the sale of assets by the municipality. This of course is dependent on the value and nature of the fixed asset. It is good general practice for a municipality to regard the disposal of an asset as a source of capital funds to be used to finance further capital expenditure.

OTHER AREAS

Temporary borrowing, fidelity insurance and special funds have unusual statutory requirements.

Temporary Borrowing

There are stringent limitations on the use of temporary borrowing by a municipality. Every loan made to a municipality must be authorized by resolution or a by-law and secured by a promissory note or other obligation.

Loans are made for current operations or for capital purposes. Loans to finance current municipal operations are limited to the amount of taxes levied or estimated to be levied for the current year.
At the same time as the LAB authorizes a municipality to undertake long-term borrowing, it approves temporary financing up to the cost of the project, if required. Temporary loans for current purposes are repaid out of the current year's revenues when they are received. Proceeds from the sale of debentures must be used to repay temporary loans for capital purposes.

In order to determine adherence to statutory limitations you should know the balance of each capital loan, and the balance of the temporary loans for current operations. You will also need to ensure the separation of capital from current loans in the financial statements.

Fidelity Insurance

The law requires a municipality to bond its treasurer, deputy treasurer, collector and any other officer designated by the council, and requires the council to review the adequacy of its bond coverage each year.

In practice, coverage has occasionally proved inadequate, reflecting a shortsighted attitude towards obtaining insurance. An effort to save a few dollars may result in irrecoverable losses. Encourage the council to provide blanket insurance in adequate amounts on all its employees and additional insurance for positions of greater responsibility.

Special Funds

Special funds are resources segregated to pay for costs to be incurred at a future date. Special funds include trust accounts, pension funds and sinking funds. The law requires that earnings of a special fund's assets become the property of the fund and that they must be used for the same purpose as the fund. The legislation and by-laws affecting each fund indicates where special features of control may be necessary.

CONCLUSION

Throughout this guide we have tried to stress the unique nature of the Alberta municipality and how this will affect your audit. We have also tried to identify for you the major legislative and regulatory parameters which define the roles of these municipalities and the restrictions placed on them. We hope this guide has provided you with some insight into municipal government in Alberta. Should you have questions or comments in regards to the contents of this guide or in regards to any other municipal related matter you may contact the Municipal Services Branch of Alberta Municipal Affairs at (403)427-2523 or Zenith 2-2282.

APPENDIX A

MUNICIPAL AUDIT REMINDER LIST

Introduction

These lists are designed to help you make a comprehensive review of municipal systems. They review the contents of the chapters covering revenue, expenditure, capital and other areas.

The controls outlined in these lists are those found in a well administered municipality. You should consider them to be a yardstick against which to measure your client's systems - not as absolute requirements.

Revenue

1. Does the council pass by-laws establishing policies for:
   a) allocation of responsibilities for collecting and controlling revenue?
   b) tax installment dates?
   c) interim tax billing?
   d) collecting taxes?
   e) joint municipal agreements?
   f) fee schedules?
   g) approval of annual estimates and mill rates?

2. Do appointed officials have established procedures for:
   a) reviewing the assessment roll?
   b) appealing assessments where necessary?
   c) correcting and updating the assessment and collector's rolls?
   d) preparing the budget tax rate by-law?
   e) preparing tax bills and tax revenue summary - including the addition of special charges and amounts added for collection?
   f) billing and collecting supplementary taxes?
   g) collecting business taxes?
   h) tax sales?
   i) billing and collecting penalties on unpaid taxes?
   j) claiming, checking and recording payments from other governments?
   k) recovering federal sales tax?
   l) controlling revenues from licences, permits and fees?

3. Are budgets adequate enough to:
   a) identify the source of all expected revenue?
   b) identify surplus funds available for temporary investment?

4. Do financial reports provide the information necessary for the control of collections?

5. Have the legal requirements of the provincial statutes been observed for:
   a) updating and correcting the assessment and tax rolls?
   b) preparing the budget and tax rate by-law?
   c) preparing and distributing tax notices?
   d) collecting taxes?
   e) charging penalties on unpaid taxes?
   f) tax sales or tax registrations?
   g) billing and collecting supplementary taxes?
   h) joint agreements with other municipalities?
   i) imposing charges for other revenue?

Expenditure

1. Does the council pass by-laws or resolutions establishing policies for:
   a) allocation of responsibilities for controlling expenditure?
   b) annual expenditure estimates?
   c) limits for purchase approvals?
   d) purchasing and tendering?
   e) payment of accounts?
   f) personnel and wage rates?
   g) insurance coverage?

2. Do appointed officials have established procedures for:
   a) purchasing and tendering?
   b) payment of accounts?
   c) preparation of annual estimates?
   d) hiring and payroll preparation?
   e) control of inventories?
   f) preparation and distribution of internal financial reports?

3. Do department heads initiate adequate departmental procedures for:
   a) requisitioning?
   b) purchasing?
   c) receiving?
   d) storage?
   e) approval of payments?

4. Do the budgets identify expenditure limits by control center?

5. Do the financial reports provide the information necessary to manage each control center?

6. Have the legal requirements of the provincial statutes been observed for:
   a) amounts to be paid to bodies for which the municipality must raise taxes; boards of education, counties, etc.?
   b) amounts raised for special charges?
   c) transactions involving reserves?
   d) taxes written off?
   e) deficits?
   f) transfers?

Capital

1. Have the legal requirements been observed for:
   a) obtaining Local Authorities Board approval?
   b) the use of money received from developers?
   c) apportioning costs of projects not financed from general revenue?

2. Are there adequate procedures to:
   a) prepare a capital budget?
   b) document each project?
   c) control costs of each project?
   d) correct unfavourable trends in costs?
   e) call tenders?
   f) obtain professional advice when needed?
   g) obtain performance bonds and liability insurance?
   h) control cashed debenture coupons?
   i) control and insure fixed assets?
   j) dispose of fixed assets?

3. Do the financial statements properly reflect:
   a) capital expenditure regardless of how financed?
   b) long-term liabilities?
   c) capital outlay to be recovered in future years?
   d) contractual obligations and contingent liabilities?

Other areas

1. Have the legal requirements of the provincial statutes been observed for:
   a) temporary loans for current operations?
   b) temporary loans for capital purposes?
   c) fidelity insurance coverage?
   d) reserve funds and other special funds?

2. Is there adequate fidelity insurance coverage?

APPENDIX B

SUGGESTIONS TO THE AUDITOR

Annually, four blank Financial Statement forms are mailed to the Municipal Treasurer. When the audit is completed, the red coded ORIGINAL should be mailed to the Deputy Minister of Alberta Municipal Affairs in the envelope provided; one copy retained by yourself; two handed to the Municipal Treasurer. If any additional blank forms are required they may be obtained from the Department at a nominal cost.

Before commencing the audit, your attention is directed to the Duties of the Auditor, as set out in sections 68 to 77 of the Municipal Government Act, a study of which is essential.

A list of suggestions follows and we trust you will find them useful during the course of the audit.

REVENUES

Taxation Revenue

Check each item of arrears from previous year into current rolls. See that totals agree with current Financial Statement.

Check by-law against roll for authority for rates struck and taxes levied.

Check duplicate receipts into roll and tax consolidation record.

Check authority in Minute Book for cancellations shown in roll.

Check all penalties added in current roll.

Check all discounts allowed in roll and tax consolidation records, electric light, water, etc.

Check all totals and see that roll is in balance.

Check all totals and details of re-cap and summary.

Cash Receipts Journal

Check all balances from previous year into current cash journal.

Check all duplicate receipts into cash journal and prove distribution.

Check all bank deposits to correct account; compare with bank pass books, and monthly statements.

Check all totals and see that cash journal distribution agrees with total receipts and deposits.

Check all totals and see that cash journal distribution agrees with total receipts and deposits.

Check all totals and details of re-cap and summary.

Other Revenue

Confirm with other governments the amounts paid to the municipality.

Confirm that conditional grants have been used for the authorized purpose.

Examine council minutes to ensure that the collection of permits have been authorized by council.

Sales Revenues

Examine minute book for authority for rates.

Check that rates charged conform to rate schedule.

Check calculations on billings.

EXPENDITURES

Cash Disbursement Journal

Check all balances from previous year into current cash journal.

Check Minute Book for authority to pay each disbursement shown in cash journal. See section 59(2)d of the Municipal Government Act RSA 1980.

Examine supporting documentation and verify prices, quantity and extension.

Ensure that contract payments agree with the contract's provisions.

Check pay rolls and vouchers as to whether they are in order (correctly made out and signed).

Check all cheques available from bank into cash journal - prove distribution and check with pass book and monthly statements.

Check previous year list of outstanding cheques and identify those paid in current year.

Check current list of outstanding cheques and see that they are entered in cash journal.

Check all totals and see that distribution agrees with total disbursements and bank withdrawals.

Check all totals and details of re-cap and summary.

Check debenture register and coupons paid during the year.

CAPITAL

Prepare continuity schedule of fixed assets showing opening balances, additions, disposals, and transfers.

Agree opening balances to previous years closing balance.

Examine documentation for additions and disposals.

Examine repair and maintenance records for possible capital items.

APPENDIX C

ALBERTA STATUTES AFFECTING MUNICIPALITIES

The following is a list of the most important legislation affecting municipalities. It is not a complete list of all provincial legislation regarding municipal government.

Agricultural Services Board Act
Assessment Appeal Board Act
Clean Air Act
Clean Water Act
County Act
Crown Property Municipal Grants Act
Department of Municipal Affairs Act
Electric Power and Pipeline Assessment Act
Employment Standards Act
Expropriation Act
Family and Community Support Services Act
Highway Traffic Act
Hospitals Act
Interpretation Act
Local Authorities Board Act
Local Authorities Election Act
Local Tax Arrears Consolidation Act
Municipal Debenture Act
Municipal Government Act
Municipal and Provincial Properties Valuation Act
Municipal and School Administration Act
Municipal Taxation Act
Municipal Tax Exemption Act
Municipalities Assessment and Equalization Act
New Towns Act
Planning Act
Property Tax Reduction Act
Recreation Development Act
Regional Municipal Services Act
School Act
Tax Recovery Act

Any of the above noted Acts and amendments to date may be purchased from the Queen's Printer, 11510 Kingsway Avenue, Edmonton.

Regulations 4-11-78, 3-57-80, and 5-07-81, all regarding Mobile Home Licencing should also be noted.

APPENDIX D

LOCAL AUTHORITIES BOARD GUIDE TO APPLICATIONS

THE MUNICIPAL GOVERNMENT ACT
BEING CHAPTER M-26 OF THE
REVISED STATUTES OF ALBERTA, 1980

This guide has been compiled to assist local authorities wishing to borrow money by the issuance of debentures.

Debenture borrowing for capital purposes is usually governed by one of three Sections of the Municipal Government Act. Prior to a by-law being prepared it must be determined which Section of the Act is applicable. The criteria for the use of these Sections are as follows:

SECTION 324

This Section applies to borrowing for any capital project which in the opinion of the Local Authorities Board (Section 353(4.1)), cannot be undertaken as an extension, rehabilitation, re-equipment or improvement (Section 329). Section 324, therefore, covers new construction, such as an administration building, arena, fire station, etc., the acquisition of land for any purpose except that allowed under Section 353, the original installation of a new system such as water, sewer, gas, etc., or the construction of any new system. If the project is to be undertaken pursuant to Section 324 it must be remembered that advertising (in a form approved by the Local Authorities Board) is required within 60 days from the date of first reading of the by-law. This advertising must be published in at least one newspaper circulating within the limits of the municipality once a week for two consecutive weeks[1]).

If a valid petition is received relative to the project (per Section 324(4)) the by-law must then be submitted to a vote of the (proprietary) electors, or the project abandoned.

SECTION 329

This Section applies to debenture borrowing for construction of local improvements as authorized by Section 149 of the Municipal Taxation Act. Any number of local improvements may be undertaken in one by-law, with different schedules attached, provided they are for the same term of borrowing. A schedule(s) must be attached to each local improvement by-law showing the

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1) Two consecutive weeks means "once in each period of seven days commencing with the date of the first publication and not once in each of two successive calendar weeks".

portion of the cost to be collected by special assessment, the total special assessment per front foot or meter (known as the "pay-out rate"), the annual rate per front foot or meter and the total yearly assessment against all properties. In addition, the schedule(s) must give a detailed description of the location of the local improvement, the property to be assessed and the number of assessable feet or meters of frontage. The share of the cost to be borne by the municipality at large must be no grater than 50% of the cost of the improvement, otherwise Council must go directly to a vote of the (proprietary) electors. No local improvement may be initiated without the Council of the municipality having first received a valid petition requesting the improvement or having published a notice of intention in a newspaper circulating within the municipality (per Section 156 or 157 of the Municipal Taxation Act).

The initial construction of a new system may not be undertaken as a local improvement, Section 324 being the applicable Section, and therefore, no special assessment may be levied for the new system, except in the case of a hamlet.

Refer to detailed procedures further in this guide.

SECTION 353

This Section applies to all borrowings for capital projects which are to extend, rehabilitate, re-equip or improve existing systems or facilities and no advertising or vote is required, provided the by-law is passed by two-thirds of all members of Council (refer to Section 27 of the Municipal Government) and is approved by the Local Authorities Board. All borrowings pursuant to this Section are 100% payable by the municipality at large (as contrasted with local improvement borrowings which are in whole or partly repaid by a special assessment levy).

The Local Authorities Board may determine whether a by-law under Section 353 is for an extension, rehabilitation, re-equipment or improvement. If the Board so determines, the local authority may be required to advertise the project for a vote under the provisions of Section 324 of the Municipal Government Act.

Refer to detailed procedures further in this guide.

CAPITAL PROJECT FINANCING NOTES

1. For the requirements of a debenture by-law, refer to Section 338 of the Municipal Government Act and, if the project is a local improvement, also refer to Section 330(3) of the said Act. As Section 338 provides that the by-law be in the form and contain further provisions that may be required by the Board it is recommended the by-law format set out in Appendix A be used.

2. A municipality must not enter into an agreement for fabrication of structural components or for construction at the site of the work or undertaking that commits the expenditure of money to be raised by the debentures until the Local Authorities Board has given its authorization. (Section 70 of the Local Authorities Board Act)

3. A municipality may call for tenders, but tenders can only be awarded following the issuance of a Board Order. If a project is not tendered, the Board, at its discretion, may accept declarations of project costs prepared by a qualified municipal official in lieu of requiring bids or tenders for final borrowing approval.

4. A municipality may only amend a by-law which has received final reading by another by-law and by submitting the amending by-law to the Board for approval. (Section 348 of the Municipal Government Act)

5. A debenture by-law will be submitted to the Local Authorities Board for approval after the final reading. (Section 70 of the Local Authorities Board Act)

6. Notwithstanding Section 70 of the Local Authorities Board Act, municipalities may include in the cost of a municipal project for which debentures are to be issued, the value of land
   (a) which has been acquired for the project,
   (b) which has been acquired for another purpose and is transferred to the project,
   (c) which has been, or is to be, acquired from another owner in exchange for land owned by the municipality,
   (d) which is to be acquired for the project,at the current market value as determined by an independent appraisal, or the cost of acquisition, whichever is lower.

7. Liability of Councillors, Section 78 of the Local Authorities Board Act - "When a local authority borrows or applies money without the sanction of or in contravention of an order made by the Board under this Part, the members of the Council or trustees who voted for the borrowing or misapplication are jointly and severally liable to restore the amounts so borrowed or misapplied, and the liability may be enforced by action by the local authority, or by any person paying taxes to the local authority, or by any debenture holder of the local authority."

USE OF SURPLUS DEBENTURE FUNDS

SECTION 394 - THE MUNICIPAL GOVERNMENT ACT

A municipality may, by resolution, apply to the Local Authorities Board for authorization to use any or all unexpended debenture funds for another capital project.

1. Surplus debentures funds exist when a capital project has been completed, or partially abandoned, at a cost less than the amount of debentures issued. If, however, surplus debenture funds arise as a result of grants received to finance the original project, the municipality should make application to cancel the debenture and substitute it for a debenture of a lesser amount.

2. The Council of a municipality may decide to use surplus debenture funds to finance other capital projects subject to the approval of the Local Authorities Board.

3. Application will be made to the Board by way of a resolution of Council setting out the facts which resulted in surplus debenture funds. (See Appendix J)

4. The Board does not authorize the use of surplus debenture funds from local improvement by-laws, unless it can be proven the surplus is from the municipality at large portion of the by-law. If surplus debenture funds do exist from a local improvement project contact the Board for guidance.

5. A municipality must ensure that the surplus funds being applied for are in fact debenture funds. All other monies received to finance a particular project (grant monies, insurance proceeds, etc.) must firstly be expended towards the cost of the project, the last funds to be applied being debentures.

6. Submit to the Board the following:
   a) A "Certified True Copy" of the resolution passed by Council. (See Appendix J)
   b) Cheque payable to the 'Provincial Treasurer' to cover the Board's tariff of fees to process the application. (See Appendix Q)

7. Upon receipt of the above, the Local Authorities Board may issue an Order authorizing the municipality to use the surplus debenture funds for the purpose(s) set forth in the resolution.

8. Surplus debenture funds from various projects may be applied for under one resolution; the facts relevant to each by-law from which surplus funds resulted must be detailed by individual by-law and project.

TEMPORARY FINANCING

SECTION 322 - THE MUNICIPAL GOVERNMENT ACT

Application for temporary financing may only be made after debenture borrowing for a capital project has been approved and a Board Order has been issued.

Forward to the Local Authorities Board the following:

1. A "Certified True Copy" of the by-law as finally passed indicating the dates of all three readings. (See Appendix N) DO NOT FORWARD ORIGINAL BY-LAW.

2. Cheque payable to the 'Provincial Treasurer' to cover the Board's tariff of fees to process the application (See Appendix Q)

The Local Authorities Board, on reviewing the application, may issue a Board Order authorizing the municipality to borrow by way of promissory notes or similar forms of obligation for a term not exceeding three years.

The Council of a municipality may then apply to a financial institution for funds to finance the capital project.

Proceeds of debentures, when issued, must firstly be applied to the repayment of the temporary financing.